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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

ANNUAL COMPLIANCE REVIEW, 2020

Docket No. ACR2020

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-16 OF CHAIRMAN'S INFORMATION REQUEST NO. 11

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 11, issued on February 4, 2021. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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February 11, 2021

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 11**

1. Please *see* Attachment, filed under seal.

RESPONSE:

Please see the response filed under seal as part of USPS-FY20-NP41.

RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 11

2. Please *see* Attachment, filed under seal.

RESPONSE:

Please see the response filed under seal as part of USPS-FY20-NP41.

3. Please *see* Attachment, filed under seal.

RESPONSE:

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4. Please *see* Attachment, filed under seal.

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5. Please *see* Attachment, filed under seal.

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RESPONSE:

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7. The Postal Service reports that the FY 2020 cost coverage for USPS Marketing Mail Carrier Route fell to 96.0 percent. *See* FY 2020 ACR at 11. Please provide a plan to improve the cost coverage of USPS Marketing Mail Carrier Route to a compensatory level in FY 2021. The plan should detail all specific plans to reduce the USPS Marketing Mail Carrier Route attributable costs, as well as a pricing strategy to ensure adequate revenues for the product to cover its attributable costs in FY 2021.

RESPONSE:

In FY 2020, the cost coverage for USPS Marketing Mail Carrier Route decreased 3.7 percentage points from 99.7 to 96.0 percent. Cost coverage was negatively impacted because unit revenue did not increase at a rate which would offset moderate increases in unit cost. While unit revenue for Carrier Route increased by 0.3 cents (1 percent) during this period, unit cost increased by 1.3 cents (5 percent), which was driven primarily by an increase in delivery cost.

Increases in unit costs are largely explained by declining volumes, cost method changes, and clerk and carrier wage rate increases. While unit revenues increased slightly in FY 2020, overall revenue for Carrier Route decreased by 20 percent and volume fell by 1.3 billion pieces. Also during the period, wage rates increased by one percent for carriers overall and by four percent for clerk and mail handlers.

Carrier Route costs were impacted by five rulemaking dockets where costing methodology changes were approved by the Commission. As a result, unit costs for Carrier Route were estimated to increase by 0.8 cents, which accounts for 64 percent of the observed increase in Carrier Route unit costs. A significant portion of this change can be attributed to two of these dockets, RM2020-7 (City Carrier Street Time Variabilities) and RM2020-10 (IOCS Cluster). Since the majority of the cost change from FY 2019 is the result of refinements in costing methodology, the observed increase in the unit cost for USPS Marketing Mail Carrier Route should not be viewed as an occasion to search for new plans or initiatives in response.

Furthermore, as noted in ACR folder USPS-FY20-45, paragraph (b)(4) narrative at 3, Postal operations are generally structured around shape, rather than around products**.** Successes in cost reduction initiatives targeting flat-shaped products will impact Carrier Route costs. The broader operational initiatives discussed in the narrative accompanying USPS-FY20-45 paragraph (f) include the plans the Postal Service has to reduce attributable costs for flat-shaped products. An example of these initiatives includes the Mailer Irregularity Application.

In regard to pricing, as strongly recommended by the Commission, the price of USPS Marketing Mail Carrier Route was increased by 2 percent above USPS Marketing Mail class in 2020.[1] As shown in the response to question 8 of this ChIR, assuming constant unit costs, the contribution is expected to increase in the range of $32-$59 million. In FY 2020, the deficit for Carrier Route amounted to roughly 56 million dollars. The Postal Service believes that implementation of the previously described cost reduction initiatives, in concert with the price increase, may result in Carrier Route

[1] Docket No. ACR2019, Annual Compliance Determination, Mar. 25, 2020, at 52.

having positive contribution in FY 2021. In the event that the additional revenues are not enough to cover attributable costs, the Postal Service will recommend to the Governors to further increase Carrier Route prices above USPS Marketing Mail class average.

8. In Docket No. R2021-1, the Postal Service proposed and the Commission approved, a price increase of 3.529 percent for USPS Marketing Mail Carrier Route.[2] Please estimate the impact of the proposed price increase on FY 2021 volume, revenue, cost, and contribution for USPS Marketing Mail Carrier Route. The estimate should use the most recent elasticities provided by the Postal Service to the Commission[3] and support any additional assumptions.

RESPONSE:

As requested, the most recent elasticity estimates provided in the FY 2020 Demand Analysis, submitted on January 20, 2021 are used in this response. Moreover, accompanying the FY 2020 Demand Analysis was a volume forecast for FY 2020 that reflects the effects of the Carrier Route rate increase identified in the question. That FY 2021 volume forecast was premised on the actual implementation date in January 2021 for the rate change. To determine the impact of the rate change on volume, an additional forecast was conducted using the same model as included with the FY 2020 Demand Analysis, but assuming no rate change in FY 2021 (the before-rates forecast). Furthermore, to provide a hypothetical estimate of a full year impact (rather than the partial year impact implicit in January implementation), another model run was conducted assuming the rate change was implemented at the beginning of October 2020 (the start of FY 2021), rather than in January. Volume estimates associated with each of these three scenarios (including the January implementation scenario volume

[2] Docket No. R2021-1, Order on Price Adjustments For First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, November 18, 2020, at 20 (Order No. 5757).

[3] *See* Postal Service Econometric Estimates of Demand Elasticity for All Postal Products, FY 2020, January 20, 2021 (FY 2020 Demand Analysis).

already submitted with the FY 2020 Demand Analysis) are provided below. Revenue estimates corresponding to each of these volume scenarios are also provided. To calculate the cost impacts, the unit costs for Carrier Route from the FY 2020 CRA Report have been applied to the volumes from each of the three scenarios. Contribution can then be calculated by subtracting total costs from total revenues. Contribution impact, in turn, is measured as the differences between the before-rates benchmark (i.e., no rate increase) contribution estimate and the respective after-rates contribution estimates

(Millions)		FY 2021 Forecast	
Marketing Mail	Before-Rates	After-Rates	After-Rates
Carrier Route		(Jan)	(Oct)
Volume	4,967.35	4,950.19	4,930.19
Revenue	$1,727.38	$1,754.90	$1,775.69
Unit Cost	$0.2762	$0.2762	$0.2762
Total Cost	$1,371.99	$1,367.25	$1,361.73
Contribution	$355.39	$387.65	$413.96
Contribution Impact		$32.25	$58.57

These figures indicate that the 3.529 percent rate increase for Carrier Route is expected to improve actual contribution for FY 2021 by about $32 million, and is expected to produce a full-year improvement in contribution of about $59 million. It may be noted, however, that these figures are based on FY 2020 CRA unit costs, and thus make no explicit allowance for inflation between FY 2020 and FY 2021. In the context of the same exercise conducted in response to similar requests last year, however, further analysis was done which showed that plausible inflation estimates have no material effect on the contribution impact estimates generated by this exercise. Please see the Postal Service's responses in Docket No. ACR2019 to to ChIR No. 4, Questions 37-39 (January 24, 2020) and ChIR No. 9, Question 5 (February 7, 2020).

9. In Docket No. R2020-1, the Postal Service proposed and the Commission approved, a price increase of 3.553 percent for USPS Marketing Mail Flats. Order No. 5757 at 20. Please estimate the impact of the proposed price increase on FY 2021 volume, revenue, cost, and contribution for USPS Marketing Mail Flats. The estimate should use the most recent elasticities provided by the Postal Service in the FY 2020 Demand Analysis and support any additional assumptions.

RESPONSE:

Please see the response to Question 8 of this Information Request for an explanation of the methodology and assumptions employed to obtain the requested FY 2021 impact estimates. The corresponding table for the 3.553 percent rate increase for USPS Marketing Mail Flats appears below.

(Millions) Marketing Mail Flats	FY 2021 Forecast Before-Rates	After-Rates (Jan)	After-Rates (Oct)
Volume	6,810.35	6,745.56	6,705.32
Revenue	$1,995.01	$2,020.80	$2,035.95
Unit Cost	$0.6639	$0.6639	$0.6639
Total Cost	$4,521.08	$4,478.06	$4,451.35
Contribution	($2,526.07)	($2,457.27)	($2,415.40)
Contribution Impact		$68.80	$110.67

These figures indicate that the 3.553 percent rate increase for Flats is expected to improve actual contribution for FY 2020 by about $69 million and is expected to produce a full-year improvement in contribution of about $111 million.

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10. In Docket No. R2020-1, the Postal Service proposed and the Commission approved, a price increase of 16.791 percent for USPS Marketing Mail Parcels. Order No. 5757 at 20. Please estimate the impact of the proposed price increase on FY 2021 volume, revenue, cost, and contribution for USPS Marketing Parcels. The estimate should use the most recent elasticities provided by the Postal Service in the FY 2020 Demand Analysis and support any additional assumptions.

RESPONSE:

Please see the response to Question 8 of this Information Request for an explanation of the methodology and assumptions employed to obtain the requested FY 2021 impact estimates. The corresponding table for the 16.791 percent rate increase for USPS Marketing Mail Parcels appears below.

(Millions)		FY 2021 Forecast	
Marketing Mail Parcels	Before-Rates	After-Rates (Jan)	After-Rates (Oct)
Volume	34.41	30.31	28.15
Revenue	$47.31	$45.94	$45.21
Unit Cost	$1.7707	$1.7707	$1.7707
Total Cost	$60.93	$53.66	$49.85
Contribution	($13.62)	($7.73)	($4.65)
Contribution Impact		$5.90	$8.98

These figures indicate that the 16.791 percent rate increase for Parcels is expected to improve actual contribution for FY 2020 about $6 million and is expected to produce a full-year improvement in contribution of about $9 million.

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11. The Postal Service has stated "[w]hile the Postal Service recognizes that implementation of the late and extra trips policy had a temporary and unintended impact on service performance in July, after which there was a sharp recovery in August after the Postal Service made the necessary operational adjustments, that issue goes to the Postal Service's *execution* of the initiative, which we recognize was not as effective as it should have been. It does not go to the decision to reemphasi[ze] operational discipline in the first place."[4]

a. Please explain what lessons were learned by Postal Service management from this disconnect between the intent of the late and extra trips policy and its actual impact on service performance in July and August 2020.

b. Please explain what best practices were identified by Postal Service management to ensure that the impact on Market Dominant service performance results due to future operational initiatives related to late and extra trips corresponds with the Postal Service management's intent.

c. Please identify what metric(s) Postal Service management will use to ensure that the impact on Market Dominant service performance results due to future operational initiatives related to late and extra trips corresponds with the Postal Service management's intent.

RESPONSE:

a. The Postal Service has recognized that its renewed emphasis on adherence to transportation schedules had an unintended impact on service performance, but that effect was a temporary one occurring in mid to late July. During the course of its day-to-day monitoring of transportation schedules, the Postal Service concluded that the failure of facility processing schedules to align with transportation schedules contributed in some part to the decline that also arose from the spike in COVID-19 in July 2020. The

[4] United States Postal Service, Office of Inspector General, Report No. 21-014-R21, Deployment of Operational Changes, November 6, 2020, Appendix E Management's Comments at 2 (emphasis in original), available at: *https://www.uspsoig.gov/sites/default/files/document-library-files/2020/21-014-R21.pdf*.

Postal Service made adjustments to processing schedules to better align with the transportation schedules, which resulted in improved service performance in August 2020.

The primary lessons learned due to this temporary delay were reminders of the importance of ensuring appropriate alignment across operations, coupled with effective communication and message saturation, at the time that any such efforts to adhere to transportation schedules are implemented.

b. Postal Service management's intent to facilitate prompt and reliable delivery services, improving efficiency, and avoiding unnecessary costs is consistent with the best practice of ensuring alignment of schedules across all areas of operations, including mail processing and delivery. The Postal Service's operational plans are designed to adhere to service standards and, although the Postal Service continues to engage in efforts to manage unnecessary costs, its priority is to provide efficient and timely mail service consistent with its statutory obligations. Striving to run the Postal Service's nationwide network on time is an essential operational practice if the Postal Service is to meet its performance goals, and the Postal Service recognizes that, given the complexity of its operations and many circumstances outside its control, late and extra trips will continue to be utilized as necessary to meet those goals.

The Postal Service intends to continue its ongoing monitoring of the use of extra and late trips to identify and correct causes of unnecessary late and extra trips and, in ongoing communications between Headquarters and field management, to address ongoing efforts to reduce avoidable costs and avoid service failures that may arise due to unnecessary extra and late trips. The Postal Service's modified organizational structure, which aligns functions based on core business operations, is improving management's ability to communicate with the appropriate clarity, alignment, and saturation, regarding initiatives relating to transportation, as well as collection, processing, transporting, and delivery of mail, and is providing managers and employees with clearer understandings of what is expected.

c. The Postal Service analyzes its Market Dominant service performance in accordance with the metrics approved by the Commission and will continue to monitor service performance following implementation of any future operational initiatives. In addition, cycle time performance and surface visibility performance may also be used to monitor the results of future initiatives, as needed and appropriate depending on the initiative.

12. The Postal Service has stated "[n]one of these routine [*Do It Now*] efforts, if properly implemented, should impact service; rather, their intended effect is to either enhance the Postal Service's efficiency while meeting service levels, or to improve service." *Id.* (emphasis added).

a. Please explain what lessons were learned by Postal Service management from this disconnect between the intent of the "Do It Now" efforts and their actual impact on service performance in July and August 2020.

b. Please explain what best practices were identified by Postal Service management to ensure that the impact on Market Dominant service performance results due to future operational initiatives similar to the "Do It Now" efforts corresponds with the Postal Service management's intent.

c. Please identify what metric(s) Postal Service management will use to ensure that the impact on Market Dominant service performance results due to future operational initiatives similar to the "Do It Now" efforts corresponds with the Postal Service management's intent.

RESPONSE:

a. The "Do It Now" initiatives included tactics that are aptly described as prudent management practices focused on day to day operational discipline to ensure that workhours are better aligned to mail volumes. As Management explained in detail in its Comments to that OIG report, it is inappropriate to lump together all of the various operational initiatives that occurred during mid-2020 and then assume that all such initiatives actually contributed to service declines. As noted in the foregoing response to Question 11.a of this Information Request, implementation of the late and extra trips policy had a temporary and unintended impact on service in July. Generally, the lessons learned related to that initiative -- the importance of ensuring appropriate alignment across operations, coupled with effective communication and message saturation – would likely apply to other operational initiatives as well, though that may vary depending on the specifics of any particular initiative.

b. Effective execution of any initiative, no matter how routine, requires that all relevant employees have a clear understanding of what is expected.

c. Management will continue to use the tools available in Informed Visibility (IV), and to develop other tools as necessary, to help ensure that service performance results remain unchanged or improve when implementing operational initiatives.

13. The Postal Service states "[t]he COVID-19 pandemic reduced employee availability nationally and in numerous pockets of *hot spots* at different times."[5]

a. Please specify when and where these "hot spots" occurred in terms of service performance reporting districts.

b. Please list districts that reported employee availability below 50 percent in FY 2019 and FY 2020 using the following as an example format:

	District	Employee Availability	Observed Month(s)
FY 20XX	XXXX	XX%	XXXX
	XXXX	XX%	XXXX

RESPONSE:

a. The Postal Service's reference to such "hot spots" was in its response (Jan. 15, 2021) to Question 1.a of CIR No. 1, in which the Commission had expressly asked about impact at the facility level, not at the District level (" … please explain how reduced employee availability due to COVID-19 concentrated in one facility and/or concentrated on a particular processing operation impacted … "). Accordingly, the Postal Service's reference to the 50 percent threshold in the response to Question 1.b of CIR No. 1 also referred to the facility level, not the District level (" … facilities that experienced employee availability rates below 50 percent at times …"). The potential scope of what some might consider to be a "hot spot" could vary from a single facility to perhaps an

[5] Responses of the United States Postal Service to Questions 1-21 of Commission Information Request No. 1, January 15, 2021, question 1.a. (emphasis added) (Response to CIR No. 1).

entire region of the country, based on employee availability, plus other factors within the knowledge and experience of Local and District officials. Nonetheless, in order to provide information responsive to the present question regarding Districts, the response to subpart b. of this question presents a list of “hot spots” at the District level, using one (non-exclusive) reasonable criterion.

b. The intention of this question is not entirely clear. At a facility level, there were tens of thousands of facilities across many Districts that reported employee availability below 50 percent on individual days over those two years. But the format of the question seems to suggest that the reporting interval sought is by month, and the aggregation level sought is by District. For an entire District to report employee availability below 50 percent for an entire month would apparently require even more catastrophic circumstances than those recently experienced by the Postal Service, because no such instances occurred in FY 2019 or FY 2020. Nonetheless, it is equally true that District-level employee availability does not need to be as low as 50 percent in order to cause major challenges for service performance. Fifty percent represents a convenient expositional benchmark, but there is nothing particularly magical about that value in this context.

Therefore, in an effort to nonetheless try to meet what seems to be the intent of the question – the identification of months in which specific Districts could be identified as facing demonstrably greater challenges based on this metric – the Postal Service tested alternative thresholds. The level which empirically seemed most effective for distinguishing particularly-challenged Districts was 70 percent. Thus, rather than providing an answer that simply reports that a response table in the format most consistent with the question would be empty, the Postal Service is providing an alternative list of Districts that experienced monthly employee availability levels of under 70 percent. The list includes eight different Districts, which in total experienced 18 separate months with levels under 70 percent. In contrast, if the alternative threshold were set as under 75 percent, the list would include 53 different Districts experiencing in total 238 months below that slightly higher mark. While certainly not suggesting that observations which were perhaps only slightly above the 70 percent threshold are not also indicative of Districts that faced significant challenges, the Postal Service submits that the list below (applying a 70 percent cutoff) represents the months and locations of the greatest challenges.

CY	Month	District	Availability
2019	January	CHICAGO DISTRICT	67.92%
2019	November	CARIBBEAN DISTRICT	69.03%
2020	January	CARIBBEAN DISTRICT	67.50%
2020	April	CARIBBEAN DISTRICT	69.84%
2020	April	TRIBORO DISTRICT	68.56%
2020	April	DETROIT DISTRICT	68.40%
2020	April	NEW YORK DISTRICT	59.16%
2020	May	CHICAGO DISTRICT	69.41%
2020	July	CARIBBEAN DISTRICT	67.26%
2020	July	DETROIT DISTRICT	69.87%
2020	July	HOUSTON DISTRICT	69.87%
2020	July	LOUISIANA DISTRICT	69.04%
2020	July	CHICAGO DISTRICT	66.97%
2020	September	CHICAGO DISTRICT	69.96%
2020	November	DETROIT DISTRICT	69.56%
2020	November	DALLAS DISTRICT	69.39%
2020	November	LOUISIANA DISTRICT	68.52%
2020	November	CHICAGO DISTRICT	65.61%

14. The Postal Service states that mail volumes for First-Class Package Service increased relative to the same period last year by 77 percent in Quarter 3 and 60 percent in Quarter 4.[6]

a. Please describe how this increase impacted the Postal Service's processing procedures.

b. Please detail how this increase impacted resource allocation (*e.g.*, human resources or capital resources).

RESPONSE:

a. The COVID-19 pandemic had a drastic effect on our operations, with the greatest factors including decreased employee availability and reduced transportation capacity. Those factors, coupled with increased package volume, impacted the Postal Service's processing procedures during this period. Our field units worked diligently to balance and prioritize the mail volumes in their facilities with limited employee availability. For example, stimulus checks were a priority, as were medications, so these mail types might be processed before some other mail types, such as catalogs and magazines.

b. When employee availability was low, operations managers would move their employees from one operation to another as needed in order to prioritize moving the mail within their facilities. It was critical to utilize Postal Service employees and equipment to meet customer expectations, including for provision of their medications and as psychological support.

[6] Response to CIR No. 1, question 3.b.

15. Please provide FY 2019 and FY 2020 on-time service performance results for each Market Dominant product and service standard that aggregate results for Quarters 3 and 4 only (the second half of the fiscal year).

RESPONSE:

Please see the electronically attached Excel files associated with this response.

16. The Postal Service states that "[a]ll Special Services achieved the established service targets at the reporting level required in this report, except for Post Office Box [S]ervice…."[7]

a. Please confirm that Stamp Fulfillment Services did not achieve its 90 percent on-time performance target in FY 2020.

i. If confirmed, please explain all reason(s) FY 2020 on-time performance for this product declined from the level observed in FY 2019 and how the Postal Service plans to improve performance for this product for FY 2021.

ii. If not confirmed, please reconcile the FY 2020 reported on-time performance of 79.1 percent for this product with the 90 percent on-time performance target.

b. Please confirm that Ancillary Services did not achieve its 90 percent on-time performance target in FY 2020.

i. If confirmed, please explain all reason(s) that FY 2020 on-time performance for this product declined from the level observed in FY 2019 and how the Postal Service plans to improve performance for this product for FY 2021.

ii. If not confirmed, please reconcile the FY 2020 reported on-time performance of 89.6 percent for this product with the 90 percent on-time performance target.

RESPONSE:

a. Confirmed; the quoted narrative statement was inadvertently copied from a prior year's report, whereas the Postal Service's reported percentages were correct. Stamp Fulfillment Services (SFS) is the centralized order fulfillment facility for orders received from customers of the Postal Store, USA Philatelic catalog, the USPS eBay store, phone, brochures, etc. In FY 2020, the total volume of orders

[7] Library Reference USPS-FY20-29, December 29, 2020, PDF file "FY20-29Service Performance Report.pdf," at 27.

nearly doubled from FY 2019, which can be attributed in part to consumers choosing to order stamps online during the COVID-19 pandemic, as well as stamps and stamp products being purchased by the public during several "support the postal service" grassroots initiatives during spring/summer 2020. In FY 2020 Q3 alone, SFS saw over four times the number of orders come into systems for fulfillment over previous years.

The volume of orders of FY 2020, in conjunction with unexpected system issues, created a backlog of orders that required both ingenuity, application code correction, and time to clear. SFS service performance calculations eliminate orders only where a system downtime has been communicated to customers in advance. The system issues that arose in FY 2020 did not meet that definition.

During the late spring and summer of 2020, SFS worked to increase the speed with which orders were fulfilled by doing the following:

- Initiated actions to correct application code that allows the download process to place 10,000 orders into queue hourly allowing a consistent stream of incoming orders.
- Created procedures for a second shift to be utilized on primary equipment when more than 75,000 orders are in the queue. This second shift can be implemented as the need arises.
- Hired Postal Support Employees (PSEs) to assist with increased workload. PSEs allow for a flexible workforce to support the actual order volume.

In FY 2020 and early FY 2021, SFS lay groundwork for process improvement of the automated fulfillment system and associated equipment, including:

- Installed new equipment in FY 2021 to increase productivity by 10,000 orders per day.
- Worked with Continuous Improvement (Lean Six Sigma) methods and teams to investigate the re-engineering of the fulfillment system (logical) and methodologies (physical).

These steps, in conjunction with consistent monitoring of incoming and completed orders, should help SFS to improve performance.

b. Confirmed. On-time performance for Ancillary Services was impacted by the increase in mail volume and employee availability was significantly reduced by the COVID-19 pandemic. These factors caused certain delays across the Postal Service network. The Postal Service will continue to focus on improving performance of all Ancillary Services, with special attention to certified mail/return receipt and insurance. Management will engage employees with enhanced knowledge through service talks and Standard Work Instructions; management will also employ training, monitor service performance metrics to develop improvement plans, and share best practices as further means to help improve performance.